

Message Text

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53

ACTION ARA-10

INFO OCT-01 AF-06 EUR-12 EA-06 NEA-10 ISO-00 ARAE-00

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FEAE-00 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00

NSC-05 OMB-01 PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15

STR-04 TRSE-00 FRB-03 PA-01 PRS-01 /127 W

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P R 092312Z JUL 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC PRIORITY 6267

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMCONSUL GUAYAQUIL

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LIMA

AMEMBASSY SANTIAGO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION OECD PARIS

C O N F I D E N T I A L QUITO 4959

E.O. 11652: GDS

TAGS: EFIN, ENRG, EC

SUBJECT: ECUADOR LOWERS OIL PRICE

1. THE GOE ANNOUNCED JULY 9 THAT THE PRICE OF OIL HAS BEEN
LOWERED 43 CENTS A BARREL. TEXACO ASSISTANT MANAGER BUCARAM
TOLD EMBOFF THAT THE COMPANIES EXPECT ANOTHER REDUCTION WITHIN
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A MONTH. ACCORDING BUCARAM, THE 43 CENTS DECREASE IS

SUFFICIENT TO MARKET THE OIL AND THE SUBSEQUENT REDUCTION WILL JUSTIFY FURTHER INVESTMENT. BUCARAM DID NOT KNOW HOW MUCH THIS FUTURE PRICE REDUCTION WILL BE.

2. MINISTER OF NATURAL RESOURCES SALAZAR ANNOUNCED TO THE PRESS THAT THE TAX-PAID COST OF ECUADOREAN CRUDE WAS REDUCED FROM 10.84 A BARREL TO 10.41 A BARREL BY LOWERING THE INCOME TAX FROM 58.83 PERCENT TO 53.05 PERCENT. THE DECISION IS IMMEDIATELY EFFECTIVE. THIS PRICE REDUCTION AFFECTS ONLY CRUDE SOLD IN THE CARIBBEAN AND THE U.S. WEST COAST. THERE WILL BE NO PRICE CHANGE FOR CRUDE SOLD TO THE SOUTHERN MARKET (CHILE AND PERU). ALSO, THE COST OF PRODUCTION (FIXED BY GOVERNMENT DECREE) WAS RAISED FROM 45 CENTS TO 51.2 CENTS A BARREL. SALAZAR MAINTAINED THAT THE PRICE REVISION TAKES INTO CONSIDERATION THE DIFFERENT CONDITIONS IN THE THREE PRINCIPAL MARKETS: TWENTY PERCENT OF ECUADOREAN CRUDE GOES TO THE U.S. WEST COAST, TWENTY PERCENT TO CHILE AND PERU, AND SIXTY PERCENT TO THE CARIBBEAN. SALAZAR ADDED THAT THE ADJUSTMENT DOES NOT CONTRADICT OPEC GUIDELINES FOR GOVERNMENT TAKE.

3. WHEN QUESTIONED ABOUT A "BOYCOTT" BY OIL COMPANIES, SALAZAR ADMITTED THAT THE COMPANIES HAD STOPPED EXPORTS UNTIL THE GOVERNMENT DECREE, BUT ADDED "THE COMPANIES COULD NOT SELL THE CRUDE BECAUSE THEY DID NOT HAVE A COMPETITIVE PRICE". WHEN ASKED WHAT THE OUTCOME WOULD BE IF THE COMPANIES DID NOT ACCEPT THE READJUSTMENT, THE MINISTER SAID THAT "IT IS NOT A QUESTION OF ACCEPTING OR NOT ACCEPTING, SINCE IT IS A SOVEREIGN CONCERN. IF THEY DO NOT ACCEPT, WE WILL STUDY THE NECESSARY MEASURES".

4. AT FIRST READING, THE GOE HAS SERIOUSLY COMPLICATED THE TAX COMPUTATIONS FOR ECUADOREAN CRUDE. THERE ARE NOW TWO INCOME TAX RATES DEPENDING ON FINAL MARKET, A DECISION WHICH WILL BE DIFFICULT TO IMPLEMENT OR ENFORCE. THE GOE DID NOT ALTER THE REFERENCE PRICE (13.90) OR THE ROYALTIES (16.67 PERCENT OF REFERENCE PRICE - EXPORT TAX) SINCE ROYALTIES ARE EARMARKED FOR THE MILITARY AND INECEL. PRESS ANNOUNCEMENTS ALSO CITE A NEW TAX-PAID COST (FOB BALAO) OF 10.41. THIS FIGURE APPARENTLY STILL FAILS TO TAKE INTO ACCOUNT

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THE 86 PERCENT COCA PAYMENT. FURTHER DETAILS ON PRODUCTION AND NEW COST ANALYSIS WILL FOLLOW SEPTEL.

5. COMMENT: JUDGING FROM BUCARAM COMMENTS NOTED ABOVE, GOE PRICE DECREASE SHOULD PROVE SUFFICIENT FOR TEXACO-GULF TO RESUME EXPORTS, ALTHOUGH IT REMAINS TO BE SEEN WHETHER GOE WILL REALLY PROVIDE ENOUGH INCENTIVE FOR FURTHER CONSORTIUM INVESTMENT.

BREWSTER

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